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ABSTRACT

This study guide, which includes the answers to student exercises included in it, is intended for use with the separately available entrepreneurship education text "How To Set Up Your Own Business." The guide includes student exercises and answers that have been designed to accompany chapters dealing with the following topics: deciding whether or not to set up a small business, forecasting sales, financing, assessing the different legal needs of different types of businesses, developing and conducting effective publicity and public relations campaigns, purchasing the correct supplies from the correct suppliers, bookkeeping, accounting, selling, assessing insurance needs, managing personnel, developing a business plan, and staying on the road to success. (MN)

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HOW TO SET UP YOUR OWN SMALL BUSINESS
STUDY GUIDE
Keyed

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HOW TO SET UP YOUR OWN SMALL BUSINESS

KEYED STUDY GUIDE

This KEYED STUDY GUIDE provides the answers found in the STUDENT STUDY GUIDE used in conjunction with the test: HOW TO SET UP YOUR OWN SMALL BUSINESS.

Certain Chapters DO NOT HAVE general answers since the questions pertain to a specific business chosen by the student or the teacher.

Accordingly, there are no general answers for the following Chapters in the Student Study Guide:

Chapters: 1
2
4
7
13
16
19

CHAPTER THREE STUDY GUIDE

1. What is the size (geographically and by population) of your market area?

   _____

2. How many prospective customers are in your market area? (A prospective customer is a person who is likely to make at least one purchase in the next 12 months.)

   _____

3. How many customers will actually buy from you?_____

4. How much will they spend with you?_____

5. What seasonal fluctuations or other variables must be taken into consideration when planning the level of your sales during the next 12 months?

   _____

   _____

   _____

   _____

6. What are the four purposes of a budget?

   Presents one with a definite business objective.

   Acts as a safety signal.

   Places responsibility.

   Helps one to prevent waste.

7. What are the titles of the three columns on a forecast (projection)?

   Projected sales

   Fixed expenses

   Variable expenses

8. How often should you review your forecast?

_____weekly
_____monthly
_____once a year
___x___as often as necessary

9. Construct a spread sheet for your business, imaginary or otherwise, that includes:

a) Sales forecast
b) variable expenses
c) fixed expenses
d) net profit and loss for each month
e) cumulative cash flow

(Attach your spread sheet to this page when submitting for review and credit.)

CHAPTER FIVE STUDY GUIDE

1. In Frank's Snow Plowing and Lawn Care Service, which month is the lowest point of Frank's cash flow?

   _____3rd month __x__7th month _____10th month

2. How much money was Frank down after his 5th month of doing business?

   $ 3,177

3. How much money did Frank need to get his business started?

   _____$7,500 __x__$11,250 _____$13,000

4. What are the three stages of financing that reflect the life cycle of a business?

   Seed money

   Start-up Financing

   Growth Financing

5. Debt Financing is another way of defining the word *loan*.

6. List 8 different sources of loan money. For example: Family or Relatives. (List eight more)

   Friends, Small business investment companies, banks, Savings & loans, Community development companies, Insurance companies, Credit unions, Suppliers, Loan companies, Leasing companies, Business Brokers

7. In preparing a Loan Proposal and submitting it to your Banker, it is preferable to submit a TYPED proposal.

   __x__true _____false

8. What is the total amount of money Joe Smith requested in his LOAN PROPOSAL?

_____$4,500 _____$12,000 __x__$20,000 _____$32,000

9. In the SPECIFIC USE OF FUNDS section of Smith's Loan Proposal, how much money was requested for each of the following:

2400 Payroll

600 Insurance

350 Office Supplies

600 Business Supplies

10. In the section SOURCE OF FUNDS TO BE INVESTED IN BUSINESS IN ADDITION TO THE BANK LOAN, how much money was actually going to be put into the business by Joe and Doris Smith?

__x__ $5,000 _____$9,000 _____$14,000

11. What is the last section of the Loan Proposal called?

How Loan is to be Repaid _____

7

CHAPTER SIX STUDY GUIDE

Before you start, one word of caution. Some of the questions are not designed to yield clear-cut, objective answers, but are designed to make you think over the issue once again. They are written to help you develop your personal solutions and rationale.

1. What is the best way to find a lawyer suiting your needs?

   Seek referrals, shop around, look for expertise in your line of business, compatible, willing to spend time with you

2. What are your legal rights as a lawyer's client?

   Clear answers, diligence, kept informed, prompt responses, reasonable fees, itemized statements, courteous treatment, confidential conferences free from interruption

3. What are your lawyer's ethical duties?

   Maintain secrecy; honesty; avoid conflict of interest; complete competence; avoid perjury & false evidence; may not support illegal or fraudulent activities.

4. Is a lawyer immune from being sued by his/her client?
   no

5. How should you handle disputes and disagreements with your lawyer?

   Confer with him/her, follow up in writing, consider suing for malpractice, take grievance to State Bar Association

6. What are some of the psychological factors important in a lawyer-client relationship?

Personal relationship with him/her. Does he/she appear to be truly trusted? Is he/she objective?

7. What are the three basic forms of business discussed in this lesson?

Sole proprietorship, partnership, corporation

8. What is the main difference between a public and a closed corporation?

Closed corporations have one or a few owners, all involved in operations, no public stock. Public corporations owned by many investors through public issue of stock.

9. What is the difference between a limited and a general partnership?

Limited partnership limits personal liability to amount invested. General partnership means unlimited personal liability involving personal assets.

10. In what area of business is a limited partnership especially feasible?

Real estate

11. What is the main advantage of an "S" corporation?

You avoid unlimited personal liability and double taxation.

12. What are the main advantages of a sole proprietorship?

Easiest and cheapest form; less reporting, you make all decisions; you and business treated as a single entry for all tax purposes.

13. What are its main disadvantages?

Unlimited personal liability, business and personal income both taxed, your death may destroy business, no tax advantage on fringe benefits.

14. To what extent are partnerships similar to sole proprietorship?

Personal assets are in jeopardy, death or withdrawal dissolves organization, partner's share of income is taxed.

15. What do you personally consider to be the advantages of a partnership over a sole proprietorship?

Two or more persons with special talents & experience may pool resources for benefit of organization.

16. What are the main advantages of forming a corporation?

Corporation treated as a person for tax purposes, limited personal liability, unaffected by death or withdrawal.

17. In what instances may an "S" corporation arrangement be to your disadvantage?

During early rapid growth period when desirable to retain some earnings for expansion. Those earnings taxed at lower rate than individually.

18. Why should a lawyer/accountant assist you in selecting the right form for your business?

To gain best tax advantage; to accommodate family considerations; to get best advice based on financial position, long range plans, etc.

19. Is a single ownership corporation possible? *yes*

20. What is fiduciary relationship? *A position of faith, loyalty and trust (especially concerning money), in relation to another person or persons.*

21. What is the legal definition of an assumed name?

A business name other than your given name.

22. What are the basic steps involved in filing an assumed name?

Get Certificate of Assumed Name; complete, sign & have notarized; publish it in two successive issues of appropriate newspaper; secure affidavit from paper; send all to Secretary of State.

23. To what extent is a business name important for the success of your enterprise?

It can make the difference between success and failure.

24. How can you find out whether or not a certain name has popular appeal?

Test it among family and friends.

25. How and to what extent can you disguise that your business is incorporated?

Register with state as a corporation, but file for a Certificate of Assumed Name.

26. For how long is the filing of an assumed name valid?

10 years

34. Is state law usually more or less stringent than federal law? *More*

35. What should be the role of your lawyer in preparing a purchase contract?

Prepare the contract, review seller's documents, ask crucial questions, provide feedback, protect your interest.

36. What is the difference between buying the corporation and buying the assets?

When you buy the corporation, you buy all stock shares along with legal and other liabilities; when you buy assets, you buy only what is tangible and used in the business.

37. Which of the above options is usually the better deal?

Buying the assets

38. What are some of the concessions you have to make when the seller finances the deal?

Number of installments and interest rate are the major ones.

39. What is the legal definition of a contingency clause?

Terms of the contract depend on certain events and/or conditions.

40. When and what extent is such a clause important?

When zoning, economic or political situations, local ordinances, inventory condition, or approval by bank, lawyer or accountant is necessary prior to completion of sale.

41. When would you need adjustments to the purchase price?

When there's a long delay before closing; when inventories fluctuate; when buyer is responsible for paying employees prior to completion of sale.

42. Why would it be desirable to exclude some items from the purchase agreement?

To avoid disputes with seller, and to avoid buying waste material and lemons.

43. Is there a specific number of closing documents to look for? *No*

44. What is the definition of a closing document?

All contracts, bill of sales, titles, deeds, policies or other agreements needed to officially transfer ownership from one party to another.

45. Generally, what is the bargaining power situation between you and the lessor?

Your bargaining power is weak.

46. What is a percentage lease? *Calls for a base rent plus a percentage of your gross sales.*

27. What are the types of insurance for an employee resulting from his employment?

Social Security, unemployment, workers compensation health and life insurance.

28. What types/forms of insurance are mandated by law?

Social Security and unemployment compensation. In most states workers compensation is mandated.

29. What types/forms of insurance are at your discretion as an employer?

Life and health insurance; workers compensation in some states.

30. In what respect (to what extent) does the law discriminate between minors and adults?

In general, a minor is under age 18. Hired family members may be a minimum of 16, except in manufacturing and mining, restaurant and entertainment work.

31. The term "discrimination" applies to what types of minorities?

All

32. To what records/documents is an employee entitled upon leaving your company?

Certification of employment (length of employment, position held), tax withholding certificates.

33. How do you have to handle tax withholdings from wages and salaries?

According to state and federal regulations.

47. What are the drawbacks of a percentage lease?

Could result in an extremely high payment; often fails to exclude certain normal expenses.

48. When might a percentage lease be desirable?

When your sales are fairly predictable, when there is a cap in your favor, when terms are carefully defined.

49. What is a flat lease? *When payments remain the same over entire lease term.*

50. What is a net lease? *Basic rent plus taxes, insurance, repairs or other costs.*

51. What is an escalator clause? *Language permitting periodic increases in rent.*

52. Why should the amount of periodic rent adjustments be agreed upon in advance?

To avoid possibility of having to pay unusually high increase.

53. How should you exercise options to renew a lease?

Ninety days before expiration, and in period similar to original period.

54. What are some of the crucial points to watch out for in a shopping center lease?

Is lease negotiable? Can it be terminated if the big stores leave? Physical changes only with your consent. Terms of payment.

55. What is the prevailing legal attitude toward tenants' rights?

Strong, and getting stronger, especially when justice and fair play are at stake.

56. Why is a hypothetical "ideal" lease a good model to work with?

It represents the factors most essential to your business. If changes are necessary they will probably have only a minor effect.

CHAPTER EIGHT STUDY GUIDE

1. What is advertising? *Any communication of a sales message.*

2. List five things advertising can do for your business.

   Promote products; stimulate demand; offset competitors advertising; make salespeople more effective; increase product use; remind and reinforce customers; reduce sales fluctuations; promote goodwill.

3. What are the five basic steps in planning an advertising budget and media plan?

   1. *Decide what you want to sell*
   2. *Determine target audiences*
   3. *Determine why thy buy what you sell*
   4. *Select best media to reach this audience*
   5. *Complete your media plan*

4. Name one or more advertising media you plan to use, and the reasons you selected each:

Media	Reasons
(Answers vary)	

5. You can use any business name you desire for your new business providing you are the sole owner of the business.

True_____ False__x___

6. The major components of any print advertisement include: headline, copy, illustration and signature.

True__x___ False_____

7. A good formula to use when preparing copy for your ad is AIDCA. What does this stand for?

A *Attention*

I *Interest*

D *Description*

C *Conviction*

A *Action*

8. Your illustration could be either a photograph or an artist's drawing. Which type would you use, and why?

Type: *(Answers will vary)*

Reason:_____

_____

_____

_____

9. What are the two basic costs for any advertisement?

Production and *Media*

10. What is the most meaningful measurement of one ad's effectiveness?

Cost per sale

11. An advertising agency should never be used by a small business owner or operator because the service is too expensive.

True_____ False___x___

12. Using the layout sheet on the next page, prepare a LAYOUT for a Grand Opening advertisement for your new business, or the business you are now in. Be sure to include:

a. Actual headline

b. Location of illustration(s)

c. Location of copy (if appropriate, include actual copy for demonstrations, prizes, free drawings, food, etc.)

d. Actual introductory offers and special pricing, if applicable.

e. Your signature, including location, hours, logo (if known)

Remember, you are not expected to be a skilled artist. Your layout may be as rough as you want it to be.

CHAPTER NINE STUDY GUIDE

1. Is it OK to give your publicity to an advertising salesman to place with his medium? *No* Why? *Editors resent this intrusion of their personal judgment.*

2. What is the one **fundamental** difference between advertising and public relations?

   Public relations sells the company; Advertising sells the product.

3. How else does publicity differ from advertising?

   PR conditions the market to make it more responsive to advertising; PR develops relationships, reputation, and image. PR is free; PR is objective, more believable.

4. In which ways does publicity supplement and enhance the effectiveness of advertising?

   Publicity can improve attitudes toward company and awareness of products or services; preserves advertising momentum; fills gaps between ad campaigns.

5. What are the basic characteristics of publicity that make it acceptable to the press?

   Must be newsworthy; timely topic; involve human interest; involve well-known people; tie in with recent media coverage.

6. Why is a preventive PR program better than a curative PR program?

Prevention is always cheaper. Always better to establish a good reputation early than to erase a bad one.

7. Write down three objectives for a public relations program for your business.

Varies

a. What are the "messages" -- the positive statements-- about your business that should be conveyed to the public in publicity?

Varies

b. What are the other elements, besides objectives, in a PR plan?

Audiences, objectives, media, programs, projects, time and action schedule.

8. What makes a publicity topic newsworthy?

Should be of general interest to the audience of a particular medium, relating to events, human interest, and other current news, etc.

9. Name two practices that you can follow in finding publicity topics.

Categorize current news, then determine if you are experiencing any unusual actions that fit those categories.

10. What are the "generic" topics relevant to your business --topics of GENERAL public interest?

Varies

11. What are the alternatives to actually writing a news release yourself?

Prepare a fact sheet, a question and answer list, a background, outline or story tip sheet.

12. How can you get the press to write publicity releases for you?

Send a copy of one of the above, with cover letter, file folder and two Rolodex cards, to editor or reporter by name.

13. Name at least five strong benefits of public relations and publicity.

Increase sales; increase sales leads; condition prospective customers to your advertising; win favored-customer status from suppliers; gain a better reputation.

14. Select three publicity or public relations projects, from those referred to in this lesson, that are appropriate for your business.

Varies

15. Write a news release announcing the grand opening of your place of business. Keep in mind that you are addressing a general audience. Use the space provided on the next page to write the news release using standard layout.

    a. Take the same information and write a radio script that is the proper length for a 20-second spot. Keep in mind the differences in writing style between writing for a print medium and for a medium that is heard. Use the space provided on the next page for your script.

NEWS RELEASE

20-SECOND SPOT-RADIO

CHAPTER TEN STUDY GUIDE

1. What is the generally accepted definition of "PURCHASING"?

   Buying the right supplies at the right time from the right suppliers at the right price in the right quantity.

2. What are the two main types of buying you will do for your business?

   a. *Merchandise for resale*

   b. *Supplies*

3. What is a Trade Association?

   An organization of individuals who have a common purpose and interests, usually in a specific type of business.

4. What are four printed sources you can use to find suppliers?

   a. *Trade association publications*

   b. *Periodicals*

   c. *Yellow pages*

   d. *Registers*

5. How can a trade show be important in your business?

   They provide an opportunity to see the latest innovations in products and services, discuss your needs, gather information and place orders.

6. What are the four printed registers suggested for locating suppliers?

a. *Thomas Register*

b. *McRae's*

c. *Connover Mast*

d. *Sweets*

7. List several "supply" items you will need to get started in your business.

Varies

8. Why are business cards considered to be one of the most important supply items you will buy?

They are inexpensive, easy to distribute, and will lead to sales.

9. What is Point-of-Purchase Material? *Any supplies needed that relate to over-the-counter or display area sales.*

List four or five examples:

Gift wrap

Ribbons, bows

Tissue paper

Boxes

Paper bags

Credit forms

10. List five possible sources for buying office supplies.

a. *Discount stores*

b. *Department stores*

c. *Office supply stores*

d. *Mail order*

e. *Printers*

f. *National business supply stores*

11. What is the argument for having one supplier for your merchandise?

Get preferred treatment when items are in short supply.

12. What is the most important consideration when making a buying decision for a manufacturing business? Why?

Quality. If it won't do the job right, it doesn't matter how little you paid for it.

13. List and define each of the four kinds of discounts you may be offered by a vendor.

a. *Trade. Offered for performing certain functions for the supplier, such as shipping, advertising, inventory.*

b. *Quantity. Pay less when buying in a large quantity.*

c. *Seasonal. When buying during off-season.*

d. *Cash. When paying cash, COD, or paying prior to arrival of invoice.*

14. When negotiating with a supplier, why would you want to meet in your office rather than theirs?

It provides more comfortable surroundings for you, and gives you an edge.

15. What are two possible ways of having good quality control?

a. *Visit and tour his/her factory or place of business.*

b. *Ask for references from other suppliers.*

16. How can you protect yourself from unexpected fluctuations in the price of the goods you have to buy?

Buy in larger quantities during sales. Or hold off in anticipation of lower prices later.

17. What is the purpose for having an inventory control system?

It lets you know supply situation at all times, and when to re-order.

18. What are the four things you must know in order to set a price on your goods or services?

a. *Actual costs*

b. *Other expenses (rent, utility, advertising, labor, supplies)*

c. *Personal (store) profit requirement*

d. *Competitive prices*

19. What is MARKUP? *The difference between the actual cost of the item and the retail price you charge.*

20. What is MARKDOWN? *The price reduction from former retail price to a new lower price.*

CHAPTER ELEVEN STUDY GUIDE

1. Identify the four functions of accounting and briefly describe the significance of each.

   a. *Documenting - The individual documents pertaining to each activity.*

   b. *Recording - Listing each activity in an orderly manner on individual pages or books (journals).*

   c. *Organizing - Placing transactions into workable categories to provide summaries of each.*

   d. *Reporting - Provides overall pictures of a company's financial activities and health.*

2. If at the end of the accounting period #1, XYZ Co. has Assets of $85,000 and Liabilities of $37,500, what is the Owner's Equity at this point in time?

   $47,500 (85,000 - 37,500 = 47,500)

3. If at the end of the accounting period #2, XYZ Co. has revenues of $33,400 and Expenses of $44,500, what is the Net Income for this accounting period?

   Loss of $11,100 (33,000 - 44,500 = 11,100)

4. Briefly describe what has happened to XYZ Co.'s Owner's Equity at the end of accounting period #2.

   Decreased by $11,100

5. If Ed had put the $350 in a separate checking account at the beginning, what would the cash balance be at this point in time?

   $450 (110 + 350 = 450)

6. If Ed had purchased the cutters and bits on credit from Smith Machine Tool, how would that have affected the Balance Sheet?

Cash increased (debit) by 50; Accounts payable increased (credit) by 50

7. During the second month (June) Ed bought $600 worth of steel, bolts, and rivets. Since he had only received an additional $200 from the previous sales, what funds did he use to pay for these additional purchases?

His own, or Owner's Equity

8. If one of the units sold in May were returned, what entries would be made in which journals?

Debits to Sales, Credit to Accounts Payable

9. Before you peek at the next page, can you prepare the Trial Balance Worksheet?

TRIAL BALANCE WORKSHEET

Account Title	Opening		Adjustments		Closing	
	Debit	Credit	Debit	Credit	Debit	Credit
Sales			*100.00*	*3500.00*		
Cost-Goods Sold			*430.00*			
Tools			*0.00*			
Shop rent			*1200.00*			
Net Income						
Cash	*100.00*		*2000.00*	*1600.00*	*500.00*	
Acct. Rec.	*800.00*		*3500.00*	*2100.00*	*2200.00*	
Inventory	*0.00*		*600.00*	*430.00*	*170.00*	
Accts. Pay.		*0.00*	*0.00*	*200.00*		*200.00*
Owner's Equity		*900.00*	*0.00*	*1770.00*		*2670.00*
Total	*900.00*	*900.00*	*9600.00*	*9600.00*	*2870.00*	*2870.00*

10. What is Ed's Net Income for June? *1,770 profit*

11. What is the change in Owner's Equity as result of June's activities?

Increase by 1,770

12. What is Ed's cash balance at this point in time? *$500*

13. With the ideas discussed above, compare and graph Accounts receivable as a function of Total Assets.

May: *800/900 = 88.89%*

June: *2,200/2,870 = 76.66%*

What does it tell you at this point in time? *Slight decline, High ratio.*

How important is it? Why? *Not very important because business just getting started. Cash flow is tight, however, and should be watched carefully.*

14. In May, Ed worked 15 hours producing Widgets, five hours getting supplies and tools, and another 10 hours preparing invoices. Compare and analyze his usage of time. What is it 'costing' Ed for this administrative work? Comment.

$30 per hour. This is out of line with realities of business.

15. If Ed assigned a value of $30 per hour to his management efforts and spent 10 hours per month in these activities, what would the company profits have been each month?

May: *$240* June: *$930*

16. Why should Ed go through all this work?

To see if he can support himself, and whether or not venture is profitable.

17. Activity in Revenue and Expense accounts are normally posted as *Credits* and *Debits*, respectively.

18. In the Balance Sheet, Asset accounts are normally carried as *Debits*, while Liabilities and Owner's Equity are shown as *Credits*.

19. Depreciation represents a periodic expense to compensate the owner for wear and tear of an *Asset*. It is posted as a *Debit* in the Operating Statement, and as a *negative debit* in the Balance Sheet.

20. We treat a major purchase, one which is not fully consumed during the accounting period, as a:

Capital Asset

CHAPTER TWELVE STUDY GUIDE

1. As a part of Ed's November 10th deal, he purchased a drill press for $5,000. Prepare an asset record for the drill press as if he had also paid $500 for shipping and installation. (Ignore details of the manufacturer, model, etc.)

DESCRIPTION: DRILL PRESS
Purchase date: November 10, 1986
DEP'N SCHED: Accel (5)

DESCRIPTION	*DR*	*CR*	*BOOK VALUE*
Purchase price	*5,000.00*		
Shipping & Inst.	*500.00*		
Total cost	*5,500.00*		
Less 1/2 Inv. Tax CR	*275.00*		
Depreciable Basis	*5,225.00*		*5,225.00*
1986 Accel Depn @ 15%	*783.00*		*4,442.00*

2. Complete the following

Investment *Tax* credits and *Section 179* deductions are two methods available to the entrepreneur for the acceleration of tax benefits.

3. Complete the following:

Before the entrepreneur makes a decision regarding the purchase or disposition of capital assets, it's well to consider the *tax* *implication* of the proposed action.

4. Complete the following:

When selling a capital asset, the entrepreneur may have to *recapture* part or all of the *Investment tax credit* or *pay Income Tax at ordinary rates*, depending on (a) whether or not it was sold for more than book value, and (b) the length of time the asset was held.

5. Rosalie Retailer operates a novelty shop known as "Rosie's Goodies". She is the sole proprietor, has no employees, and is a cash-basis taxpayer. She is not otherwise employed.

Her 12/31/85 Balance Sheet showed the following:

Cash	$6,789
Inventory	1,234
Furniture & Fixtures	3,456
Accumulated Depreciation	(517)
Owner's Equity	8,617
Business Loan	2,345

During 1986 her gross sales were $76,543 with returns of $123. She purchased $7,700 in inventory, and had $1,345 remaining at the end of the year. She made total payments on her loan of $1,400, of which 413 was interest. She took $43,500 in draws, and accelerated second-year depreciation on the furniture and fixtures (five-year property).

Her other 1986 expenses were:

Store rent	$7,890	Utilities	$654
Legal & Accounting	1,321	Insurance	432
Phone	875	Repairs &	
Office supplies	567	Maintenance	234
Advertising	2,109		

Prepare:

a. Balance Sheet as of 12/31/85

b. Operating Statement for 1986

c. Balance Sheet as of 12/31/86

d. Form 4562 for 1986

e. Schedule C for 1986

f. Schedule SE for 1986

6. Complete the following:

Thorough, *Accurate* record keeping provides the best single vehicle for the completion of a responsible tax return.

Answer 5a

ROSIE'S GOODIES

BALANCE SHEET AS OF 12/31/85

Assets		*Liabilities*	
Cash in bank	*$6,789*	*Business Loans*	*$2,345*
Inventory	*1,234*		
Furn. & Fixtures	*3,456*	*Total Liability*	*2,345*
Less: Accum. Liab.	*(517)*		
		Owner's Equity	*8,617*
Total Assets	*10,962*	*Total Liab. & Owner's Equity*	*10,962*

Answer 5b

ROSIE'S GOODIES

OPERATING STATEMENT FOR YEAR ENDING 1986

Revenues:		
Gross Sales	*76,543*	
Less returns	*123*	
Net sales		*76,420*
Cost of goods sold		*7,589*
Gross profits		*68,831*
Expenses:		
Advertising		*2,109*
Depreciation		*760*
Insurance		*432*
Interest		*413*
Legal & Professional Services		*1,321*
Office expenses & postage		*567*
Rent & Storage		*7,890*
Repairs & maintenance		*234*
Telephones		*875*
Utilities		*654*
Total expenses		*15,255*
NET PROFIT		*53,576*

Answer 5c

ROSIE'S GOODIES

BALANCE SHEET AS OF 12/31/86

Assets		***Liabilities***	
Cash in bank	*16,527*	*Business Loan*	*1,358*
Inventory	*1,345*		
Furn. & Fixtures	*3,456*		
Less accum. depr.	*(1,277)*	*Equity:*	
		12/31/86 equity	*8,617*
		1986 earnings	*53,576*
		Less 1986 draws	*(43,500)*
		Total equity	*18,693*
Total assets	*20,051*	*Total liab.& eq.*	*20,051*

Form **4562**

Department of the Treasury
Internal Revenue Service (0)

Depreciation and Amortization

▶ See separate instructions.
▶ Attach this form to your return.

OMB No 1545-0172

1986

Attachment Sequence No **67**

Name(s) as shown on return | Identifying number

Business or activity to which this form relates

Part I **Depreciation** (Do not use this part for automobiles, certain other vehicles, computers, and property used for entertainment, recreation, or amusement. Instead, use Part III.)
See instructions under Items You Should Note for new rules for certain assets placed in service after July 31, 1986.

Section A.—Election To Expense Recovery Property (Section 179)

(a) Class of property	(b) Cost	(c) Expense deduction
1		
2 Listed property—Enter total from Part III, Section A, column (h)		
3 Total (see instructions for limitations). (Partnerships or S corporations—see the Schedule K and Schedule K-1 Instructions of Form 1065 or 1120S)		

Section B.—Depreciation of Recovery Property

(a) Class of property	(b) Date placed in service	(c) Basis for depreciation (Business use only—see instructions)	(d) Recovery period	(e) Method of figuring depreciation	(f) Deduction
4 Accelerated Cost Recovery System (ACRS) (see instructions). *For assets placed in service* **ONLY** *during tax year beginning in 1986*					
a 3-year property					
b 5-year property		Furn.-&- 22 Cost-3456	5	PRE	760.00
c 10-year property					
d 15-year public utility property					
e Low-income housing					
f 15-year real property					
g 18-year real property					
h 19-year real property					
5 Listed property—Enter total from Part III, Section A, column (g)					
6 ACRS deduction for assets placed in service prior to 1986 (see instructions)					

Section C.—Depreciation of Nonrecovery Property

7 Property subject to section 168(e)(2) election (see instructions)	
8 Other depreciation (see instructions)	

Section D.—Summary

9 Depreciation from Form 4562A (see instructions)	
10 Total (add deductions on lines 3 through 9). Enter here and on the Depreciation line of your return (Partnerships and S corporations—Do NOT include any amounts entered on line 3.)	760.00

Part II **Amortization**

(a) Description of property	(b) Date acquired	(c) Cost or other basis	(d) Code section	(e) Amortization period or percentage	(f) Amortization for this year
1 Amortization for property placed in service **only** during tax year beginning in 1986					
2 Amortization for property placed in service prior to 1986					
3 Total. Enter here and on Other Deductions or Other Expenses line of your return					

Part III **Automobiles, Certain Other Vehicles, Computers, and Property Used for Entertainment, Recreation, or Amusement (Listed Property).**

If you are using the standard mileage rate or deducting vehicle lease expense, complete columns (a) through (d) of Section A, all of Section B, and Section C if applicable.

Section A.—Depreciation (If automobiles and other listed property placed in service after June 18, 1984, are used 50% or less in a trade or business, the Section 179 deduction is not allowed and depreciation must be taken using the straight line method over 5 years. For other limitations, see instructions.)

Do you have evidence to support the business use claimed? ☐ Yes ☐ No If yes, is the evidence written? ☐ Yes ☐ No

(a) Type of property (list vehicles first)	(b) Date placed in service	(c) Business use percentage (%)	(d) Cost or other basis (see instructions for leased property)	(e) Basis for depreciation (Business use only—see instructions)	(f) Depreciation method and recovery period	(g) Depreciation deduction	(h) Section 179 expense

Total (Enter here and on line 2, page 1.) . . . . . | | |

Total (Enter here and on line 5, page 1.) . . . . . | | |

Section B.—Information Regarding Use of Vehicles

Complete this section as follows, if you deduct expenses for vehicles:

- *Always complete this section for vehicles used by a sole proprietor, partner, or other more than 5% owner or related person.*
- *If you provided vehicles to employees, first answer the questions in Section C to see if you meet an exception to completing this section for those items.*

	Vehicle 1		Vehicle 2		Vehicle 3		Vehicle 4		Vehicle 5		Vehicle 6	
1 Total miles driven during the year												
2 Total business miles driven during the year												
3 Total commuting miles driven during the year												
4 Total other personal (noncommuting) miles driven												
	Yes	**No**	**Yes**	**No**	**Yes**	**No**	**Yes**	**No**	**Yes**	**No**	**Yes**	**No**
5 Was the vehicle available for personal use during off-duty hours?												
6 Was the vehicle used primarily by a more than 5% owner or related person?												
7 Is another vehicle available for personal use?												

Section C.—Questions for Employers Who Provide Vehicles for Use by Employees.

(Answer these questions to determine if you meet an exception to completing Section B. **Note:** *Section B must always be completed for vehicles used by sole proprietors, partners, or other more than 5% owners or related persons.)*

	Yes	**No**
8 Do you maintain a written policy statement that prohibits all personal use of vehicles, including commuting, by your employees?		
9 Do you maintain a written policy statement that prohibits personal use of vehicles, except commuting, by your employees? (See instructions for vehicles used by corporate officers, directors, or 1% or more owners.)		
10 Do you treat all use of vehicles by employees as personal use?		
11 Do you provide more than five vehicles to your employees and retain the information received from your employees concerning the use of the vehicles?		
12 Do you meet the requirements concerning fleet vehicles or qualified automobile demonstration use (see instructions)? **Note:** *If your answer to 8, 9, 10, 11, or 12 is "Yes," you need not complete Section B for the covered vehicles.*		

☆U.S. GOVERNMENT PRINTING OFFICE: 1986-493-237 E.I. 43-0787287

Answer 5E

SCHEDULE C (Form 1040)

Department of the Treasury Internal Revenue Service (0)

Profit or (Loss) From Business or Profession

(Sole Proprietorship)

Partnerships, Joint Ventures, etc., Must File Form 1065.

▶ Attach to Form 1040, Form 1041, or Form 1041S. ▶ See Instructions for Schedule C (Form 1040).

OMB No 1545-0074

1986

Attachment Sequence No **09**

Name of proprietor | Social security number

A Principal business or profession, including product or service (see Instructions) | B Principal business code (from page 2) ▶

C Business name and address ▶ | D Employer ID number

E Method(s) used to value closing inventory
(1) ☒ Cost (2) ☐ Lower of cost or market (3) ☐ Other (attach explanation)

F Accounting method (1) ☒ Cash (2) ☐ Accrual (3) ☐ Other (specify) ▶

	Yes	No
G Was there any change in determining quantities, costs, or valuations between opening and closing inventory? If "Yes," attach explanation.		X
H Did you deduct expenses for an office in your home?		X

I If this schedule includes a loss, credit, deduction, income, or other tax benefit relating to a tax shelter required to be registered, check here ▶ ☐
If you check this box, you **MUST** attach **Form 8271**

Part I Income

1a	Gross receipts or sales	1a	76,543
b	Less Returns and allowances	1b	123
c	Subtract line 1b from line 1a and enter the balance here	1c	76,420
2	Cost of goods sold and/or operations (from Part III, line 8)	2	7,589
3	Subtract line 2 from line 1c and enter the **gross profit** here	3	68,831
4a	Windfall profit tax credit or refund received in 1986 (see Instructions)	4a	
b	Other income	4b	
5	Add lines 3, 4a, and 4b. This is the **gross income** ▶	5	68,831

Part II Deductions

6	Advertising	2,109	20	Office expense	567
7	Bad debts from sales or services (Cash method taxpayers, see Instructions)		21	Pension and profit-sharing plans	
8	Bank service charges		22	Rent on business property	7,890
9	Car and truck expenses		23	Repairs	234
10	Commissions		24	Supplies (not included in Part III below)	
11	Depletion		25	Taxes (Do not include windfall profit tax here. See line 29.)	
12	Depreciation and section 179 deduction from Form 4562 (not included in Part III below)	760	26	Travel and entertainment	
			27	Utilities and telephone	1,529
13	Dues and publications		28a	Wages	
14	Employee benefit programs		b	Jobs credit	
15	Freight (not included in Part III below)		c	Subtract line 28b from 28a	
16	Insurance	432	29	Windfall profit tax withheld in 1986	
17	Interest		30	Other expenses (specify)	
a	Mortgage (paid to financial institutions)	413	a		
b	Other		b		
18	Laundry and cleaning		c		
19	Legal and professional services	1,321	d		

31	Add amounts in columns for lines 6 through 30d. These are the **total deductions** ▶	31	15,255
32	**Net profit or (loss).** Subtract line 31 from line 5 and enter the result. If a profit, enter on Form 1040, line 12, and on Schedule SE, line 2 (or line 5 of Form 1041 or Form 1041S). If a loss, you **MUST** go on to line 33	32	53,576

33 If you have a loss, you **MUST** answer this question: "Do you have amounts for which you are not at risk in this business (see Instructions)?" ☐ Yes ☐ No
If "Yes," you **MUST** attach **Form 6198.** If "No," enter the loss on Form 1040, line 12, and on Schedule SE, line 2 (or line 5 of Form 1041 or Form 1041S).

Part III Cost of Goods Sold and/or Operations (See Schedule C Instructions for Part III)

1	Inventory at beginning of year (If different from last year's closing inventory, attach explanation.)	1	1,234
2	Purchases less cost of items withdrawn for personal use	2	7,700
3	Cost of labor (Do not include salary paid to yourself.)	3	
4	Materials and supplies	4	
5	Other costs	5	
6	Add lines 1 through 5	6	8,934
7	Less: Inventory at end of year	7	1,345
8	**Cost of goods sold and/or operations.** Subtract line 7 from line 6. Enter here and in Part I, line 2, above	8	7,589

For Paperwork Reduction Act Notice, see Form 1040 Instructions. **Schedule C (Form 1040) 1986**

Codes for Principal Business or Professional Activity

Review the major business categories listed in **Step 1** and find the one which best describes your type of business or professional activity. The appropriate category will direct you to specific activity codes in **Step 2**. Select the activity code that identifies the business or profession that is the principal source of your sales or receipts. Enter this 4 digit code on line B on page 1 of Schedule C. **(Note:** *If your principal source of income is from farming activities, you should file* ***Schedule F (Form 1040)****, Farm Income and Expenses.)*

Step 1

Major Business Categories	See Specific Activity in Step 2
Production (construction, manufacturing, mining) including custom or contract production services	A
Agricultural services (excluding farming), forestry, and fishing	B
Wholesale trade—selling goods you **do not produce** to businesses and institutions, including sales to professional practices and for farm production	C
Retail trade—selling goods you **do not produce** to individuals and households	D
Serving food or drink	D
Real estate, insurance, finance, and related services	E
Transportation, communications, public utilities, and related services	F
Providing personal, professional, and business services not included in the above categories	G

Step 2

A Production (Including Custom or Contract Production Services)

Code	
	Construction and building trades
0018	Operative builders (building for own account)
	General contractors
0034	Residential building
0059	Nonresidential building
0075	Highway and street construction
3889	Other heavy construction (pipe laying, bridge construction, etc.)
	Building trade contractors, including repairs
0232	Plumbing, heating, air conditioning
0257	Painting, paper hanging, decorating
0273	Electrical work
0299	Masonry, plastering, stone, tile
0414	Carpentering and flooring
0430	Roofing and sheet metal work
0455	Concrete work
0471	Water well drilling
0885	Other building trade contractors (excavation, demolition, etc.)
	Manufacturing, including printing and publishing
0612	Bakeries selling at retail
0638	Other food products and beverages
0653	Textile mill products
0679	Apparel and other textile products
0695	Leather, footware, handbags, etc.
0810	Furniture and fixtures
0836	Lumber and other wood products
0851	Printing and publishing
0877	Paper and allied products
0893	Chemicals and allied products
1016	Rubber and plastics products
1032	Stone, clay, and glass products
1057	Primary metal industries
1073	Fabricated metal products
1099	Machinery and machine shops
1115	Electric and electronic equipment
1313	Transportation equipment
1339	Instruments and related products
1883	Other manufacturing industries
	Mining and mineral extraction
1511	Metal mining
1537	Coal mining
1552	Oil and gas
1719	Quarrying and nonmetallic mining

B Agricultural Services, Forestry, and Fishing

Code	
1917	Soil preparation services
1933	Crop services
1958	Veterinary services, including pets
1974	Livestock breeding
1990	Other animal services
2113	Farm labor and management services
2212	Horticulture and landscaping
2238	Forestry, except logging
0836	Logging
2279	Fishing, hunting, and trapping

C Wholesale Trade—Selling Goods to Other Businesses, Government, or Institutions, etc.

Code	
	Durable goods, including machinery, equipment, wood, metals, etc.
2618	Selling for your own account
2634	Agent or broker for other firms—more than 50% of gross sales on commission
	Nondurable goods, including food, fiber, chemicals, etc.
2659	Selling for your own account
2675	Agent or broker for other firms—more than 50% of gross sales on commission

D Retail Trade—Selling Goods to Individuals and Households

Code	
3012	Selling door-to-door, by telephone or party plan, or from mobile unit
3038	Catalog or mail order
3053	Vending machine selling
	Selling From Store, Showroom, or Other Fixed Location
	Food, beverages, and drugs
3079	Eating places (meals or snacks)
3095	Drinking places (alcoholic beverages)
3210	Grocery stores (general line)
0612	Bakeries selling at retail
3236	Other food stores (meat, produce, candy, etc.)
3251	Liquor stores
3277	Drug stores
	Automotive and service stations
3319	New car dealers (franchised)
3335	Used car dealers
3517	Other automotive dealers (motorcycles, recreational vehicles, etc.)
3533	Tires, accessories, and parts
3558	Gasoline service stations
	General merchandise, apparel, and furniture
3715	Variety stores
3731	Other general merchandise stores
3756	Shoe stores
3772	Mens' and boys' clothing stores
3913	Womens' ready-to-wear stores
3939	Family clothing stores
3954	Other apparel and accessory stores
3970	Furniture stores
3996	TV, audio, and electronics
4119	Household appliance stores
4317	Other home furnishing stores (china, floor coverings, drapes, etc.)
4333	Music and record stores
	Building, hardware, and garden supply
4416	Building materials dealers
4432	Paint, glass, and wallpaper stores
4457	Hardware stores
4473	Nurseries and garden supply stores
	Other retail stores
4614	Used merchandise and antique stores
4630	Gift, novelty, and souvenir shops
4655	Florists
4671	Jewelry stores
4697	Sporting goods and bicycle shops
4812	Boat dealers
4838	Hobby, toy, and game shops
4853	Camera and photo supply stores
4879	Optical goods stores
4895	Luggage and leather goods stores
5017	Book stores, excluding newsstands
5033	Stationery stores
5058	Fabric and needlework stores
5074	Mobile home dealers
5090	Fuel dealers (except gasoline)
5884	Other retail stores

E Real Estate, Insurance, Finance, and Related Services

Code	
5512	Real estate agents and managers
5538	Operators and lessors of buildings (except developers)
5553	Operators and lessors of other real property (except developers)
5710	Subdividers and developers, except cemeteries
5736	Insurance agents and services
5751	Security and commodity brokers, dealers, and investment services
5777	Other real estate, insurance, and financial activities

F Transportation, Communications, Public Utilities, and Related Services

Code	
6114	Taxicabs
6312	Bus and limousine transportation
6338	Trucking (except trash collection)
6510	Trash collection without own dump
6536	Public warehousing
6551	Water transportation
6619	Air transportation
6635	Travel agents and tour operators
6650	Other transportation and related services
6676	Communication services
6692	Utilities, including dumps, snowplowing, road cleaning, etc.

G Services (Providing Personal, Professional, and Business Services)

Code	
	Hotels and other lodging places
7096	Hotels, motels, and tourist homes
7211	Rooming and boarding houses
7237	Camps and camping parks
	Laundry and cleaning services
7419	Coin-operated laundries and dry cleaning
7435	Other laundry, dry cleaning, and garment services
7450	Carpet and upholstery cleaning
7476	Janitorial and related services (building, house, and window cleaning)
	Business and/or personal services
7617	Legal services (or lawyer)
7633	Income tax preparation
7658	Accounting and bookkeeping
7674	Engineering, surveying, and architectural
7690	Management, consulting, and public relations
7716	Advertising, except direct mail
7732	Employment agencies and personnel supply
7757	Computer and data processing, including repair and leasing
7773	Equipment rental and leasing (except computer or automotive)
7914	Investigative and protective services
7880	Other business services
	Personal services
8110	Beauty shops (or beautician)
8318	Barber shop (or barber)
8334	Photographic portrait studios
8516	Shoe repair and shine services
8532	Funeral services and crematories
8557	Physical fitness facilities
8714	Child day care
8730	Teaching or tutoring
8755	Counseling (except health practitioners)
8771	Ministers and chaplains
6882	Other personal services
	Automotive services
8813	Automotive rental or leasing, without driver
8839	Parking, except valet
8854	General automotive repairs
8870	Specialized automotive repairs (brake, body repairs, paint, etc.)
8896	Other automotive services (wash, towing, etc.)
	Miscellaneous repair, except computers
9019	TV and audio equipment repair
9035	Other electrical equipment repair
9050	Reupholstery and furniture repair
2881	Other equipment repair
	Medical and health services
9217	Physicians and surgeons (MD's)
9233	Dentists
9258	Osteopathic physicians and surgeons
9274	Chiropractors
9290	Optometrists
9415	Registered and practical nurses
9431	Other licensed health practitioners
9456	Dental laboratories
9472	Nursing and personal care facilities
9886	Clinics and other health services
	Amusement and recreational services
9613	Videotape rental stores
9639	Motion picture theaters
9654	Other motion picture and TV activities
9670	Bowling alleys and pool parlors
9696	Professional sports and racing, including promoters and managers
9811	Theatrical performers, musicians, agents, producers, and related services
9837	Other amusement and recreational services
8888	Unable to classify—Explain

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SCHEDULE SE (Form 1040)
Department of the Treasury
Internal Revenue Service (C

Computation of Social Security Self-Employment Tax

▶ See Instructions for Schedule SE (Form 1040).
▶ Attach to Form 1040.

OMB No. 1545-0074
1986
Attachment Sequence No. **18**

Name of person with **self-employment** income (as shown on social security card)
Anyone

Social security number of person with **self-employment** income ▶

Part I Regular Computation of Net Earnings From Self-Employment

Note: *If you performed services for certain churches or church-controlled organizations and you are not a minister or a member of a religious order, see the instructions before completing the schedule.*

1	Net farm profit or (loss) from Schedule F (Form 1040), line 38, and farm partnerships, Schedule K-1 (Form 1065), line 13a	1	
2	Net profit or (loss) from Schedule C (Form 1040), line 32, and Schedule K-1 (Form 1065), line 13a (other than farming). (See instructions for other income to report.) Employees of an electing church or church-controlled organization do **NOT** enter your Form W-2 wages on line 2. See the instructions	2	53,575

Note: ☐ *Check here if you are* ***exempt*** *from self-employment tax on your earnings as a minister, member of a religious order, or Christian Science practitioner because you filed* ***Form 4361****. See instructions for kinds of income to report. If you have other earnings of* ***$400*** *or more that are subject to self-employment tax, include those earnings on line 2.*

Part II Optional Computation of Net Earnings From Self-Employment (See "Who Can Use Schedule SE" in the Instructions. Also see instructions for other limitations.)

Generally, this part may be used **only** if you meet any of the following tests:

A Your gross farm income[1] was not more than $2,400; or

B Your gross farm income[1] was more than $2,400 and your net farm profits[2] were less than $1,600; or

C Your net nonfarm profits[3] were less than $1,600 and your net nonfarm profits[3] were also less than two-thirds (⅔) of your gross nonfarm income[4]

Note: *If line 2 above is two-thirds (⅔) or more of your gross nonfarm income[4], or, if line 2 is $1,600 or more, you may* **not** *use the optional method.*

[1]From Schedule F (Form 1040), line 12, and Schedule K-1 (Form 1065), line 13b.

[2]From Schedule F (Form 1040), line 38, and Schedule K-1 (Form 1065), line 13a.

[3]From Schedule C (Form 1040), line 32, and Schedule K-1 (Form 1065), line 13a.

[4]From Schedule C (Form 1040), line 5, and Schedule K-1 (Form 1065), line 13c.

3	Maximum income for optional methods	3	$1,600 00
4	Farm Optional Method—If you meet test A or B above, enter the smaller of two-thirds (⅔) of gross farm income from Schedule F (Form 1040), line 12, and farm partnerships, Schedule K-1 (Form 1065), line 13b; or $1,600	4	
5	Subtract line 4 from line 3	5	
6	Nonfarm Optional Method—If you meet test C above, enter the smallest of two-thirds (⅔) of gross nonfarm income from Schedule C (Form 1040), line 5, and Schedule K-1 (Form 1065), line 13c (other than farming); or $1,600; or, if you elected the farm optional method, the amount on line 5	6	

Part III Computation of Social Security Self-Employment Tax

7	Enter the amount from Part I, line 1, or, if you elected the farm optional method, Part II, line 4		7	
8	Enter the amount from Part I, line 2, or, if you elected the nonfarm optional method, Part II, line 6		8	53,575
9	Add lines 7 and 8. If less than $400, do not fill in the rest of this schedule because you are not subject to self-employment tax. (**Exception:** If you are an employee of an electing church or church-controlled organization, see the instructions. You may owe self-employment tax on the amount you report on line 12c.)		9	53,575
10	The largest amount of combined wages and self-employment earnings subject to social security or railroad retirement tax (tier 1) for 1986 is		10	$42,000 00
11 a	Total social security wages and tips from Forms W-2 and railroad retirement compensation (tier 1). **Note:** *Medicare qualified government employees whose wages are only subject to the 1.45% medicare (hospital insurance benefits) tax and employees of certain church or church-controlled organizations should* **not** *include those wages on this line. (See instructions.)*	11a 0		
b	Unreported tips subject to social security tax from Form 4137, line 9, or to railroad retirement tax (tier 1)	11b		
c	Add lines 11a and 11b		11c	0
12 a	Subtract line 11c from line 10		12a	42,000
b	Enter your medicare qualified government wages if you are required to use the worksheet in Part III of the instructions	12b 0		
c	Enter your Form W-2 wages of $100 or more from an electing church or church-controlled organization.	12c 0		
13	Enter the smaller of line 9 or line 12a		13	42,000
	If line 13 is $42,000, fill in $5,166 on line 14. Otherwise, multiply line 13 by .123 and enter the result on line 14			.123
14	Self-employment tax. Enter this amount on Form 1040, line 50		14	5,166 00

For Paperwork Reduction Act Notice, see Form 1040 Instructions. U.S. GOVERNMENT PRINTING OFFICE: 1986-491-111 **Schedule SE (Form 1040) 1986**

7. Assume that both Mary Machinist and Herman Hypothetical were employed by Ed of 1/1/86. Mary's gross pay is $300 and Herman's is $1,200 per pay period. Their income tax withholdings are $10.00 and $215.50, respectively. There were six paydays in the first quarter beginning 1/17/86 and every other Friday thereafter.

   Prepare a 941 for the quarter ending 3/31/86, showing any necessary interim deposits as well as the final payment in reconciliation of Ed's obligations.

8. Continuing with the assumptions from question 7, there were 19 additional paydays by the end of 1986. Prepare a 940 reflecting Ed's obligations and any required interim deposits. (Use the 1985 form 940 provided)

9. Complete the following:

   Partnerships and corporations must apply for *Employer Identification Number* at the time they are organized. A sole proprietor must apply for one only if employees are hired; otherwise, the individual's *Social security number* is all that's needed.

10. Complete the following:

    Forms *W-2* and *W-3* for employer/employee are similar in function to Forms *1099-Misc* and *1096* for the purchaser and non-incorporated vendor of services.

Form **940**
Department of the Treasury
Internal Revenue Service

Employer's Annual Federal Unemployment (FUTA) Tax Return

▶ For Paperwork Reduction Act Notice, see page 2.

OMB No. 1545-0028

1986

T	
FF	
FD	
FP	
I	
T	

Name (as distinguished from trade name) — Calendar year

If incorrect, make any necessary change. ▶

Trade name, if any

Address and ZIP code

Employer identification number

A Did you pay all required contributions to your state unemployment fund by the due date of Form 940? (See instructions if none required.) . . ☐ Yes ☐ No
If you checked the "Yes" box, enter amount of contributions paid to your state unemployment fund . . . . . ▶ $

B Are you required to pay contributions to only one state? . . . . . ☐ Yes ☐ No
If you checked the "Yes" box: (1) Enter the name of the state where you are required to pay contributions . . . . . ▶
(2) Enter your state reporting number(s) as shown on state unemployment tax return. ▶

C If any part of wages subject to FUTA tax is not subject to state unemployment tax, check the box . . . . . ☐

Part I Computation of Taxable Wages and Credit Reduction (To be completed by all taxpayers.)

1	Total payments (including exempt payments) during the calendar year for services of employees		1	37,500 00
2	Exempt payments. (Explain each exemption shown, attaching additional sheets if necessary.) ▶	Amount paid		
		2		
3	Payments for services of more than $7,000. Enter only the excess over the first $7,000 paid to individual employees not including exempt amounts shown on line 2. Do not use the state wage limitation	3	23,500 00	
4	Total exempt payments (add lines 2 and 3)		4	23,500 00
5	**Total taxable wages** (subtract line 4 from line 1). (If any part is exempt from state contributions, see instructions.) ▶		5	14,000 00

6 Additional tax resulting from credit reduction for unrepaid advances to the states listed (by two-letter Postal Service abbreviations). Enter the wages included on line 5 above for each state and multiply by the rate shown. (See the instructions.)

(a) IL _____ x .012 = _____ (c) OH _____ x .011 = _____ (e) WV _____ x .011 = _____
(b) LA _____ x .009 = _____ (d) PA _____ x .012 = _____

7 Total credit reduction (add resulting amounts from lines 6(a) through 6(e) and enter here and in Part II, line 2 or Part III, line 4) . . . . . ▶ 7 0

Part II Tax Due or Refund (Complete if you checked the "Yes" boxes in both questions A and B and did not check the box in C, above.)

1	FUTA tax. Multiply the wages in Part I, line 5, by .008 and enter here	1	112 00
2	Enter amount from Part I, line 7	2	0
3	**Total FUTA tax** (add lines 1 and 2)	3	112
4	Minus: Total FUTA tax deposited for the year, including any overpayment applied from a prior year (from your records)	4	101 60
5	**Balance due** (subtract line 4 from line 3). This should be $100 or less. Pay to IRS ▶	5	10 40
6	**Overpayment** (subtract line 3 from line 4). Check if it is to be: ☐ Applied to next return, or ☐ Refunded ▶	6	

Part III Tax Due or Refund (Complete if you checked the "No" box in either question A or B or you checked the box in C, above. Also complete Part V.)

1	Gross FUTA tax. Multiply the wages in Part I, line 5, by .062		1	
2	Maximum credit. Multiply the wages in Part I, line 5, by .054	2		
3	Enter the smaller of the amount in Part V, line 11, or Part III, line 2	3		
4	Enter amount from Part I, line 7		4	
5	**Credit allowable** (subtract line 4 from line 3). (If zero or less, enter 0.)		5	
6	**Total FUTA tax** (subtract line 5 from line 1)		6	
7	Minus: Total FUTA tax deposited for the year, including any overpayment applied from a prior year (from your records)		7	
8	**Balance due** (subtract line 7 from line 6). This should be $100 or less. Pay to IRS ▶		8	
9	**Overpayment** (subtract line 6 from line 7). Check if it is to be: ☐ Applied to next return, or ☐ Refunded ▶		9	

Part IV Record of Quarterly Federal Tax Liability for Unemployment Tax (Do not include state liability.)

Quarter	First	Second	Third	Fourth	Total for Year
Liability for quarter	70.40	14.40	16.80	10.40	112.00

If you will not have to file returns in the future, write "Final" here (see general instruction "Who Must File") and sign the return. ▶

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete, and that no part of any payment made to a state unemployment fund claimed as a credit was or is to be deducted from the payments to employees.

Signature ▶ Title (Owner, etc.) ▶ Date ▶

Part V Computation of Tentative Credit (Complete if you checked the "No" box in either question A or B or you checked the box in C, on page 1—see instructions.)

Name of state	State reporting number(s) as shown on employer's state contribution returns	Taxable payroll (as defined in state act)	State experience rate period 4		State experience rate	Contributions if rate had been 5.4% (col. 3 x .054)	Contributions payable at experience rate (col. 3 x col. 5)	Additional credit (col. 6 minus col. 7) If 0 or less, enter 0.	Contributions actually paid to state
			From—	To—					
1	2	3			5	6	7	8	9
10 Totals ▶									
11 Total tentative credit (add line 10, columns 8 and 9—see instructions for limitations) ▶									

Paperwork Reduction Act Notice.—We ask for this information to carry out the Internal Revenue laws of the United States. We need it to ensure that taxpayers are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

Changes You Should Note for 1986.—Public Law 99-272 reinstated the exemption from FUTA tax for services performed by certain alien farmworkers, full-time students employed by organized camps, and fishing boat crew members. The Tax Reform Act of 1986 reinstated the exemption for amounts received under educational assistance programs (also increasing the maximum exclusion to $5,250) and received under group legal services plans. See **Circular E**, Employers' Tax Guide, for details.

General Instructions

Purpose of Form.—Use this form for your annual FUTA tax report. **Only the employer pays this tax.**

Who Must File

Household Employers.—You do not have to file this form unless you paid cash wages of $1,000 or more in any calendar quarter in 1985 or 1986 for household work in a private home, local college club, or a local chapter of a college fraternity or sorority. **Note:** *See* ***Publication 503****, Child and Dependent Care Credit, and Employment Taxes for Household Employers, for more information.*

In General.—You must file this form if you were other than a household or agricultural employer during 1985 or 1986, and you (a) paid wages of $1,500 or more in any calendar quarter, or (b) had one or more employees for some part of a day in any 20 different weeks. Count all regular, temporary, and part-time employees. A partnership should not count its partners. If there is a change in ownership or other transfer of business during the year, each employer who meets test (a) or (b) above must file. Neither should report wages paid by the other. Organizations described in section 501(c)(3) of the Internal Revenue Code do not have to file.

Agricultural Employers.—You must file Form 940 if either of the following applies to you.

(1) You paid cash wages of $20,000 or more to farmworkers during any calendar quarter in 1985 or 1986.

(2) You employed 10 or more farmworkers during some part of a day (whether or not at the same time) for at least one day during any 20 different weeks in 1985 or 1986. Count aliens admitted to the United States on a temporary basis to perform farmwork to determine if you meet either of the above tests. However, wages paid to these aliens are not subject to FUTA tax before 1993.

Completing Form 940

Employers Who Are Not Required To Deposit FUTA Tax.—If your total FUTA tax for 1986 is not more than $100, you do not have to deposit the tax. Make your FUTA tax payment when you file Form 940. If you do not have to deposit FUTA tax and you:

(a) made all required payments to your state unemployment fund by the due date of Form 940,

(b) are required to make payments to the unemployment fund of only one state; and

(c) paid wages subject to Federal unemployment tax that are also subject to state unemployment tax,

complete Parts I and II. Otherwise, complete Parts I, III, and V.

Employers Who Are Required To Deposit FUTA Tax.—If you meet tests (a), (b), and (c) above, complete Parts I, II, and IV. Otherwise, complete Parts I, III, IV, and V.

If You Are Not Liable for FUTA Tax.—If you receive Form 940 and are not liable for FUTA tax for 1986, write "Not Liable" across the front and return it to IRS. If you will not have to file returns after this, write "Final" on the line above the signature line and sign the return.

Due Date.—Form 940 for 1986 is due by February 2, 1987. However, if you made timely deposits in full payment of the tax due, your due date is February 10, 1987.

Where To File.—

If your principal business, office or agency is located in:	File with the Internal Revenue Service Center at:
Alabama, Florida, Georgia, Mississippi, South Carolina	Atlanta, GA 31101
New Jersey, New York City and counties of Nassau, Rockland, Suffolk, and Westchester	Holtsville, NY 00501
New York (all other counties), Connecticut, Maine, Massachusetts, Minnesota, New Hampshire, Rhode Island, Vermont	Andover, MA 05501
Illinois, Iowa, Missouri, Wisconsin	Kansas City, MO 64999
Delaware, District of Columbia, Maryland, Pennsylvania, Puerto Rico, Virgin Islands	Philadelphia, PA 19255
Kentucky, Michigan, Ohio, West Virginia	Cincinnati, OH 45999
Kansas, Louisiana, New Mexico, Oklahoma, Texas	Austin, TX 73301
Alaska, Arizona, California (counties of Alpine, Amador, Butte, Calaveras, Colusa, Contra Costa, Del Norte, El Dorado, Glenn, Humboldt, Lake, Lassen, Marin, Mendocino, Modoc, Napa, Nevada, Placer, Plumas, Sacramento, San Joaquin, Shasta, Sierra, Siskiyou, Solano, Sonoma, Sutter, Tehama, Trinity, Yolo, and Yuba), Colorado, Idaho, Montana, Nebraska, Nevada, North Dakota, Oregon, South Dakota, Utah, Washington, Wyoming	Ogden, UT 84201
California (all other counties), Hawaii	Fresno, CA 93888
Arkansas, Indiana, North Carolina, Tennessee, Virginia	Memphis, TN 37501

If you have no legal residence or principal place of business in any IRS district, file with the Internal Revenue Service Center, Philadelphia, PA 19255.

Employer's Name, Address, and Identification Number.—Use the preaddressed Form 940 mailed to you. If you must use a nonpreaddressed form, type or print your name, trade name, address, and employer identification number on it.

See **Publication 583,** Information for Business Taxpayers, for details on how to make tax deposits, file a return, etc., if these are due before you receive your number.

Identifying Your Payments.—On balance due payments made to IRS (Part II, line 5 and Part III, line 8) and Federal tax deposit payments, write your employer identification number, "Form 940," and tax period to which the payment applies on your check or money order. This will help ensure proper crediting of your account.

Penalties and Interest.—Avoid penalties and interest by making tax deposits when due and filing a correct return and paying the proper amount of tax when due. The law provides penalties for late deposits and late filing unless you show reasonable cause for the delay. If you file late, attach an explanation to the return. The law also provides a penalty of 25% of the overstatement if, without reasonable cause, you overstate the amount you deposited.

There are also penalties for willful failure to pay tax, keep records, make returns, and for filing false or fraudulent returns.

Credit for Contributions Paid Into State Funds.—You can claim credit for amounts you pay into a certified state (including Puerto Rico and the Virgin Islands) unemployment fund by the due date of Form 940.

Note: *Be sure to enter your state reporting number where required on Form 940. This number is needed for IRS to verify your state contributions.*

"Contributions" are payments that state law requires you to make to an unemployment fund because you are an employer. These payments are "contributions" only to the extent that they are not deducted or deductible from the employees' pay.

You may not take credit for voluntary payments or for penalties or interest payments to a state. Nor may you take credit for any special assessment, surtax, surcharge, etc., by the state for paying interest on unrepaid Title XII loans from the Federal Government.

If you have been granted an experience rate lower than 5.4% (.054) by a state for the whole or part of the year, you are entitled to an additional credit. This credit is equal to the difference between actual payments and the amount you would have been required to pay at 5.4%.

The total credit allowable may not be more than 5.4% of taxable FUTA wages.

Special Credit for Successor Employers.—If you are claiming special credit as a successor employer, see Code section 3302(e) or Circular E, for the conditions you must meet.

Amended Returns.—If you are amending a previously filed return, complete a new Form 940, using the amounts that should have been used on the original return, and sign the return. Attach a statement explaining why you are filing an amended return. Be sure to use a Form 940 for the year you are amending. Write "AMENDED RETURN" at the top of the form and file it with the Internal Revenue Service Center where you filed the original return.

Specific Instructions

You must answer questions A and B (check the box in C only if it applies), complete Part I, and sign the return.

Note: *If you have been assigned a zero percent experience rate by your state, so that there are no required contributions to the state unemployment fund, check the "Yes" box in question A and write "0% rate" on the dollar amount line.*

Use Part II only if you checked the "Yes" boxes in questions A and B and did not check the box in C. Otherwise, skip Part II and complete Parts III and V.

Complete Part IV if your total tax for the year is more than $100.

(Instructions continued on page 4.)

940 Solution:

QUARTERLY EARNINGS

	1 6 paydays	2 6 pay	3 7 pay	4 6 pay	Total yr.
Mary	1,800	1,800	2,100	1,800	7,500
Herman	7,200	7,200	8,400	7,200	30,000
	9,000	9,000	10,500	9,000	37,500
Mary's xs of $7,000	0	0	0	-500	-500
Herman's xs of $7,000	-200	-7,200	-8,400	-7,200	-23,000
Taxable	8,800	1,800	2,100	1,300	14,000
	x.008	x.008	x.008	x.008	x.008
Tax liability	70.40	14.40	16.80	10.40	112.00
Running Liab.	70.40	84.80	101.60	112.00	

Deposit required when liability exceeds at end of quarter

Form **941**
(Rev. January 1987)
Department of the Treasury
Internal Revenue Service

Employer's Quarterly Federal Tax Return

▶ For Paperwork Reduction Act Notice, see page 2.

Please type or print

OMB No. 1545-0029
Expires 8-31-88

Type or print your name, address, employer identification number, and calendar quarter of return as shown on original.

Name (as distinguished from trade name) | Date quarter ended

Trade name, if any | Employer identification number

Address and ZIP code

YOUR COPY

If you are not liable for returns in the future, check here . . . ▶ ☐ Date final wages paid . . . ▶

	Complete for First Quarter Only			
1a	Number of employees (except household) employed in the pay period that includes March 12th ▶		1a	2
b	If you are a subsidiary corporation AND your parent corporation files a consolidated Form 1120, enter parent corporation employer identification number (EIN) ▶	1b		
2	Total wages and tips subject to withholding, plus other compensation ▶		2	9,000 00
3	Total income tax withheld from wages, tips, pensions, annuities, sick pay, gambling, etc. ▶		3	1,353 00
4	Adjustment of withheld income tax for preceding quarters of calendar year (see instructions) ▶		4	
5	Adjusted total of income tax withheld		5	1,353 00
6	Taxable social security wages paid . . . $ 9,000 00 X 14.3% (.143)		6	1,287 00
7a	Taxable tips reported . . . $ _____ X 7.15% (.0715)		7a	
b	Tips deemed to be wages (see instructions) . . $ _____ X 7.15% (.0715)		7b	
c	Taxable hospital insurance wages paid . . . $ _____ X 2.9% (.029)		7c	
8	Total social security taxes (add lines 6, 7a, 7b, and 7c)		8	1,287 00
9	Adjustment of social security taxes (see instructions for required explanation) ▶		9	
10	Adjusted total of social security taxes (see instructions)		10	1,287 00
11	Backup withholding (see instructions) ▶		11	
12	Adjustment of backup withholding tax for preceding quarters of calendar year		12	
13	Adjusted total of backup withholding		13	
14	Total taxes (add lines 5, 10, and 13) ▶		14	2,640 00
15	Advance earned income credit (EIC) payments, if any		15	
16	Net taxes (subtract line 15 from line 14). **This must equal line IV below** (plus line IV of Schedule A (Form 941) if you have treated backup withholding as a separate liability)		16	2,640 00
17	Total deposits for quarter, including overpayment applied from a prior quarter, from your records ▶		17	2,640 00
18	Balance due (subtract line 17 from line 16). This should be less than $500. Pay to IRS ▶		18	0
19	If line 17 is more than line 16, enter overpayment here ▶ $ _____ and check if to be: ☐ Applied to next return or ☐ Refunded.			

Record of Federal Tax Liability (Complete if line 16 is $500 or more.) See the instructions under rule 4 for details before checking these boxes.
Check only if you made eighth-monthly deposits using the 95% rule ▶ ☐ Check only if you are a first time 3-banking-day depositor ▶ ☐

Date wages paid	Tax liability (*Do not show Federal tax deposits here.*)					
	First month of quarter		Second month of quarter		Third month of quarter	
1st through 3rd	A		I		Q	
4th through 7th	B		J		R	
8th through 11th	C		K		S	
12th through 15th	D		L		T	
16th through 19th	E		M		U	
20th through 22nd	F		N		V	
23rd through 25th	G		O		W	
26th through the last	H		P		X	
Total liability for month	I	880.00	II	880.00	III	880.00

IV Total for quarter (add lines *I*, *II*, and *III*) ▶ 2640.00

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete.

Signature ▶ _____ Title ▶ 49 Date ▶

Form 941 Solution

	Gross pay	Tax W/H	Employee FICA W/H	Emplr FICA Empl.W/H
Mary	*300*	*10.00*	*21.45*	*21.45*
Herman	*1200*	*215.50*	*85.80*	*85.80*
Totals	*1500*	*225.50*	*107.25*	*107.25*

Paydays: 1/17, 1/31, 2/4, 2/28, 3/14, 3/28

$880.00 Deposit by 2/15 for January
$880.00 Deposit by 3/15 for February
$880.00 Deposit by 4/15 for March or send with 941 before 4/15 - better to deposit as 941 not due until 4/30 and would make late deposit if filed after 4/15.

CHAPTER THIRTEEN STUDY GUIDE
(After Question 23 of "Local Questions")

1. List ten policies most businesses need to establish:

Returns	*Food and Pets*
Quality of Merchandise	*Dress Codes*
Sales	*Hours*
Delivery	*Gift Wrapping*
Smoking	*Contributions*

2. What are the five most popular credit choices businesses offer customers?

Store credit	*MasterCard*
American Express	*Diners Club*
Visa	*Shoppers charge*

3. What are five collection methods available to businesses?

Invoice (or statement)	*Collection agency*
Monthly billing	*Small claims court*
Collection letters	

4. List four areas of security which businesses commonly cover:

Fire	*Pilferage*
Theft	*Looting*

5. Name eight security measures businesses can take in any area.

Fire extinguishers, Good lighting in checkout area, large windows in front, exits & escape routes posted, alarm system, minimum cash in register, surveillance devices, two people at checkout area, avoid rear or side doors, perpetual inventory, internal audit, review of accountant's review, coat racks; not lockers, cash register near front

6. List four methods of quality control.

Check deliveries, assure quality and maintenance of tools, check finished goods, develop final inspection system, make sure employees are qualified, employee suggestions.

7. What are the most commonly used methods of inventory control?

Stock count *Stock-sales ratio*

Perpetual inventory

8. List at least three recognized business organizations and the types of service they provide.

Name	Service
Business associations	*Idea exchange, boost community*
Chamber of Commerce	*Support bus.& comm. dev.*
Service Organizations	*Help the needy*

CHAPTER FOURTEEN STUDY GUIDE

Questions 1-4 and 10-18 will refer to the product or service you plan to sell in your small business. If you will be selling a variety of products or services, select one to answer these questions. Not all of the questions may apply to your type of business. Write N/A (not applicable) when the question does not apply to your selling situation.

1. List the main features of your product or service:

Look for: beauty, high quality, solid construction, color, variety of styles, fair price, texture, speed, ease of operation, adaptability, low maintenance, promptness, etc.

2. Think of how each feature will benefit the customer. List the main benefits of each failure:

Look for: Savings of time, money, effort, etc; comfort, pride, enjoyment, health, life-style, peace of mind, advancement, etc.

3. What would motivate a customer to buy your product or service? List as many subjective and objective buying motives as you can think of:

Subjective	Objective
Beauty	*Price*
Style	*Saves time*
Color	*Easy operation*
Pride	*Variety of selection*
Quality	

4. Think about a major purchase you made last year. Who assumed the following roles:

Initiator: *(ANSWERS WILL VARY)*

Influencer: _____

Decider: _____

Purchaser: _____

User: _____

How will understanding buying roles help you sell your product or service?

Helps determine best approach in various selling situations.

5. Assume a customer walks in your retail store and begins to browse.

a. Greet him/her using the conversational approach:

"Hello. It's good to see someone in the store on a day like this." (or words to that effect)

b. Greet him/her using the merchandising approach:

"You happen to be looking at the best value in town." (or words to that effect)

6. What are some opportunities in your business to "plus" the sale?

Answers will vary

Questions 7-9 will require you to start prospecting. You will need to do some leg work to develop a list of qualified prospects.

7. What are some sources for locating your potential buyers? Use these sources to develop your initial prospect list.

Examples: Yellow pages, mailing lists, personal prospecting in person, by phone, advertising leads, customer referrals, organization member lists, etc.

8. a. List the information you will need to qualify your prospects and to prepare for the first contact.

(Answers will vary, but look for ideas like the following) Income, age, sex, educational level, life style, size of family, personal preferences, etc.

b. In your business, what makes a prospect qualified?

Similar to above

9. a. List your 10 most qualified prospects:

1. *Each will vary*
2. _____
3. _____
4. _____
5. _____
6. _____
7. _____
8. _____
9. _____
10. _____

b. How will you make your first contact with these prospects?

Answers will vary

10. Create a benefit offer in the form of a question to be used in your opening to generate interest in your product or service:

11. What specific needs will your product or service satisfy? What problems will it solve?

12. Write three questions you would ask a typical prospect to asses his/her needs.

a. _____

b. _____

c. _____

13. Create a benefit statement for your product or service.

a. Assume your prospect, Mr. Smith, has a specific reason to buy. What could you say to support his need?

b. Write a statement showing how a feature of your product or service relates to that need.

c. Create a benefit statement for Mr. Smith.

14. List five objections a prospect might raise when you ask him to buy:

Examples

a. Your price is too high

b. I'm short of cash right now

c. I hear your service is sub-par

d. We're satisfied with our supplier

e. I'm too busy to listen

15. Create statements to answer each of these objections as you would in a sales presentation:

    a. *I can understand your desire to keep your costs down, but I can show you that our cost is lower in the long run.*

    b. *You can put in a small order now, and we can extend your credit for 60 days.*

    c. *Here's a list of satisfied customers you can contact. And our guarantee covers you completely.*

    d. *I suggest you take a trial order, then compare the results with your present supplier.*

    e. *Would it be alright if I call you next week to set up a time that is more suitable?*

16. How might your prospect signal a strong desire to buy your product or service?

    Statements such as:

    What is your delivery schedule?
    How much could I save if I buy more than one?
    How does your quality compare with_____?
    Would it really save me time?
    What would my profit be?

17. Create a trial close statement you would use during the sales presentation:

    Examples:

    When is your best day for delivery?
    Would you prefer to pay cash, or may we bill you?
    How many do you need during the next month?
    Do you see how this would save you time and money?

18. a. Your prospect seems ready to buy. What will you say to close the sale?

Examples

We can have these delivered tomorrow.
How many of each do you need?
Can we start your service this week or next?

b. What will you do if he/she says "no"?

Resolve objections by re-stating the appropriate benefits, then trial close again.

19. a. In your business, what are some ways you can use the telephone to sell your product or service?

Answers will vary

b. When would your prime selling time be?

Answers will vary

20. Devise a record keeping system for your telephone selling.

Questions 21-23 will involve setting up a direct mail program for selling your product or service.

21. a. What is the objective of direct mail in your business?

Possible answers: To create a pre-qualified prospect list; to generate sales, to create awareness, to announce special events or special sale.

b. What action do you want the reader to take?

Answers will vary

22. Compile your mailing list.

23. Plan your direct mail package.

    a. Write a sales letter. (Use a separate sheet of paper and attach it.)

    b. Design an order form. (Use a separate sheet of paper and attach it.)

CHAPTER FIFTEEN STUDY GUIDE

1. What is the difference between "speculative risk" and "pure risk"?

   Speculative risk is willful and for gain. Pure risk is when participants are unwilling participants.

2. What advantages do you gain by having deductibles in insurance policies?

   Premiums are lower.

3. Insurance coverage for small losses, which are more likely to occur, is more important than insurance coverage for large losses, which are less likely to occur.

   True_____ False___*x*___

4. You can often make a profit from insurance if a disaster strikes and you have arranged your coverage appropriately.

   True_____ False___*x*___

5. Lower-priced policies are always a smart move.

   True_____ False___*x*___

6. What are some important factors involved in choosing an insurance agent?

   Expertise and experience in types of coverage needed, Good reputation among business community, trustworthy, etc.

7. What are the two main types of insurance companies?

a. *Property and liability*

b. *Life and Health*

8. What are some factors, other than price, which can affect your choice of insurance companies?

Specialized type of coverage needed

Reputation for service

Financial health and stability of company.

9. Your choice of insurance agents and brokers is often more important than your choice of insurance companies?

True *x* False _____

10. Name some common risks to your property - as many as you can think of.

Personal liability, fire, theft, vandalism, natural

and man-made disasters, trespassing, etc.

11. What are some events for which you might need liability insurance?

Personal injury from equipment, falls, etc.

Auto accident involving employee on company business.

Fire, flood, etc., break-in, vandalism

12. An "all-risk" property and liability insurance policy automatically includes coverage for flood damage to your property.

True _____ False *x*

13. What is the difference between "actual value" and "replacement cost" property coverage?

"Actual value" pays claim based on estimated depreciation value of property. "Replacement cost" covers cost of new building, goods and equipment destroyed.

14. For most people, group life and health insurance is cheaper than individual life and health insurance even if the employer does not pay part of the cost.

True ___x___ False _____

15. What is long-term disability insurance?

Pays an employee who cannot work for an extended period due to injury or illness.

16. If your company has fewer than 10 employees, what is different about your group health insurance?

Each employee would probably have to fill out a health questionnaire, perhaps take a physical exam, and rates would most likely be higher.

17. If your company has only a handful of employees, you should still usually provide workers compensation insurance.

True ___x___ False _____

18. Why does a business owner often have a special need for life insurance?

In the event of his death, his survivors would be enabled to pay off any business debt, and keep business going.

CHAPTER SEVENTEEN STUDY GUIDE

1. Prepare a list of the activities you do now or will do for your business. Do not identify every task, but list the major items, such as making the product or rendering the service, invoicing, paying bills, answering the phone, making sales calls, etc. Be sure to include travel.

Task	Time	Task	Time

2. Go back through your list and estimate about how much time you devote to each item in an average week and write it in the blank beside the task.

3. Put a plus sign (+) by those items you feel could use more time than you are now able to give. Put a minus sign (-) by the ones you think you already spend too much time on.

4. From the items with minus signs above, develop a list of specific tasks which someone else could do for you, with proper training.

5. On a separate sheet, prepare a detailed job description for the job you need to fill.

6. Discuss how important employee contact with customers will be in the business you are considering.

Answers will vary

7. List eight ways you can find a potential new employee.

a. *Newspaper ad*
b. *Employment agencies*
c. *Recommendations/friends*
d. *Colleges/schools*
e. *State Employment agency*
f. *Walk-ins*
g. *Churches/synagogues*
h. *Current employees*

(Neighborhood signs, temporary agencies, etc.)

8. What kind of information will you look for in a personal interview?

a. *Job knowledge in general*
b. *Work experience*
c. *Ability and desire to work well with people*
d. *Honesty, sense of responsibility*
e. *Personal grooming*
f. *Desire to work*

9. List the procedures to follow when conducting an interview. (Add extra items as you see fit.)

a. *Fill out application, submit resume*
b. *Inform person of job duties & responsibilities*
c. *Ask about previous work experience, why left, etc.*

d. *Ask about education, preparation for position*

e. *Ask person to summarize what they could offer company*

f. *Provide company data (history, products, services,)*

g. *Interview in private*

h. *Tell applicant he/she will be informed by mail.*

10. Why would you want a prospective employee to call you as an interview follow-up rather than the other way around?

To assure person's interest in position

11. What are 3 goals of employee training?

a. *Orienting to new position*

b. *Improving performance of new or present employees*

c. *Retraining present employees for new responsibilities*

12. Why would you want to have your company rules and regulations in writing?

To provide complete information, avoid misunder-

standings, answer questions, resolve disputes

13. What 6 general areas should you consider when writing your rules?

a. *Employment policy*

b. *Attendance*

c. *Wages*

d. *Benefits*

e. *Professional growth*

f. *Work procedures*

14. List the rules to follow in the proper disciplining of employees.

a. *Never discipline employee in front of other employees*

b. *Don't lose temper or raise voice, show anger, etc.*

c. *Discipline only when merited*

15. Which is better?

a. Telling an employee off in front of other employees to really let it sink in.

b. Praise the employee for something they did well before mentioning a problem that needs attention.

16. Praise for a job well-done encourages employees to do a good job and improve their self-image.

True ___x___ False _____

17. List several ways you can give an employee a non-financial reward.

a. *Personal compliment* c. *Special benefits*

b. *Recognition award* d. *Time off*

18. What information should go into an employee's folder?

a. *Employment application* e. *Salary history*

b. *Performance appraisals* f. *Special recognition*

c. *Achievements* g. *Employee's suggestions*

d. *Written notice of discipline* h. *Promotions*

19. Develop a training program, covering one year, for this new employee. Write your program on a separate sheet of paper.

CHAPTER EIGHTEEN STUDY GUIDE

1. What are the three main functions of a business plan?

A communications tool which conveys your ideas, research, and plans to others; A basis on which to manage your business; A yardstick by which to measure progress and evaluate changes.

2. What are the seven basic elements of a business plan?

a. *Business concept. A summary of basic business idea.*

b. *Product or service you will offer.*

c. *The market. Who will buy the product or service*

d. *Marketing strategy. How the product/service will be made.*

e. *Personnel. Employees or contractors needed.*

f. *Production plans. Where products/services will be made.*

g. *Financial plans. Cash required for materials, production*

3. Write your principal business goal for the next year (or your first full year in business). Be sure it's specific, attainable and measurable.

Answers will vary

4. Write three objectives that will help you accomplish the goal stated above.

a. *Answers will vary*

b. _____

c. _____

5. Write at least two tasks that will help you accomplish each of the three objectives you named.

Objective 1:

Task: _____

Task: _____

Objective 2:

Task: _____

Task: _____

Objective 3:

Task: _____

Task: _____